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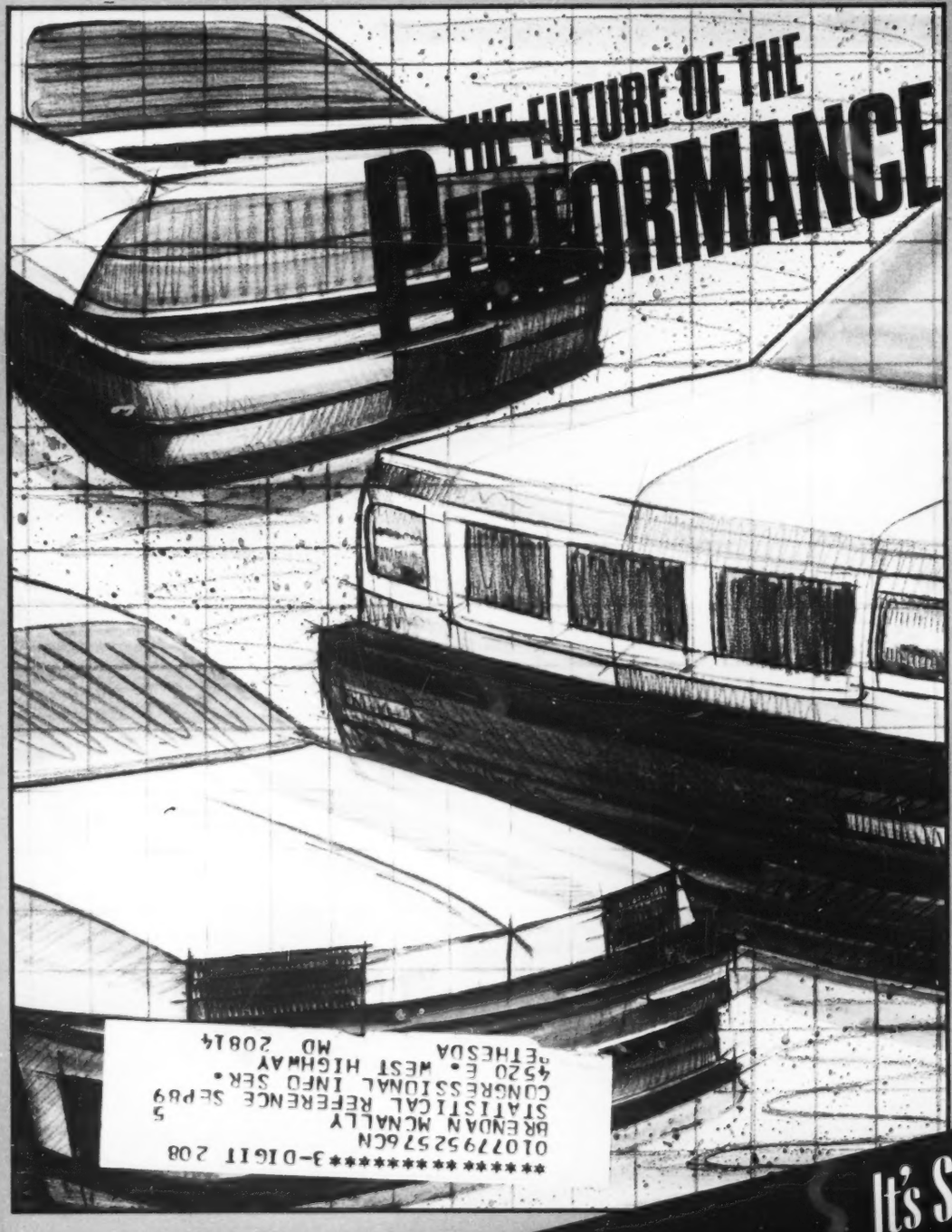
Chilton's

AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket

OCTOBER 1988



MARKET

It's Still Growing, But In Different Directions. A Thought-Provoking Conversation Among Performance Leaders

Where Do Import Parts Come From?

A Look At The Changing Import Part Distribution Pattern

Eureka!

We've Found The Next DIYers' Dream Car

Aerodynamics:

Looking Fast And Selling Hard

It's SEMA's 25th Anniversary

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Chilton's
AUTOMOTIVE MARKETING

a Chilton publication

October Issue/Volume 17, Number 11

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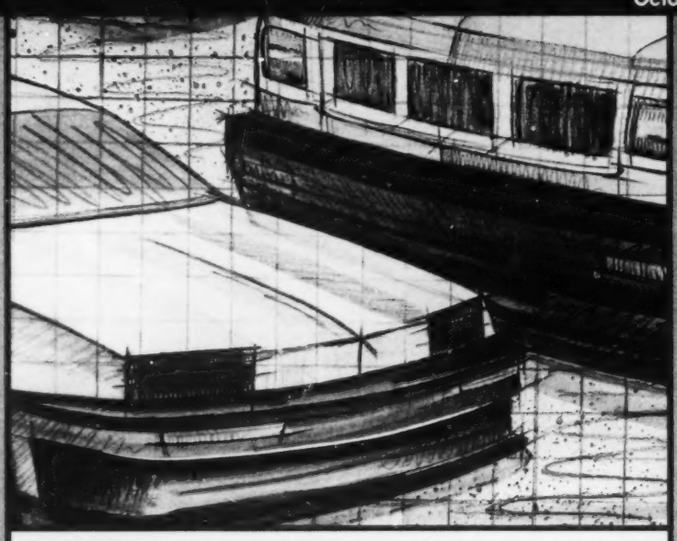
AUTOMOTIVE MARKETING - ISSN 0193-3264. Published 13 times a year by Chilton Co., Chilton Way, Radnor, PA 19089. Chilton Co. is a division of American Broadcasting Companies Inc., New York, NY. Subscription prices (payable in advance) in the United States and U.S. possessions, $36 a year; Canada, $70 a year; Foreign, $70 a year. Single copies $3.50 each ($50 for the 13th issue) when available, U.S. only. SECOND CLASS postage paid at Wayne, PA 19087 and additional mailing offices. Postmaster, send Form 3579 to AUTOMOTIVE MARKETING, POB 2075, Radnor, PA 19089.



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In midsummer, we moderated a discussion among performance and accessory parts industry leaders who are active in SEMA. Here it is, in part.

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PUBLISHER'S NOTES

SEMA/AI SPECIALS

In this issue, it's hard to decide just where to begin.

Since our emphasis this month is the upcoming SEMA/AI Show, we've paid great attention to both the performance and imports parts market segments in our editorial coverage.

This year the Specialty Equipment Market Association celebrates its 25th anniversary. For a look at the years ahead, we asked performance industry leaders to participate in a roundtable discussion. Read our transcript of this fascinating conversation. I hoped it would go on forever!

Senior News & Features Editor John Wirebach looks at the three phases of import parts distribution in his analytical piece on the distribution channels.

Contributing Editor David Evans kicks in two pieces, one looking at the hot product line of aerodynamics and the other at the DIY car of today and tomorrow. Read his thoughts on market opportunities with the Suzuki Samurai.

Touche Ross's Randy Allen forecasts the shape of Aftermarket 2000, using our own *Automotive Marketing* research. There's lots more, too.

If you're at the SEMA/AI Show, be sure to take advantage of our SEMA/AI Show Installation Clinics. We're pleased to sponsor these with our sister division, the Chilton Book Co. Look us up there, too, in Booth 2808!

Sarah Frankson
Publisher

IN-STORE FOCUS

Blue Star Auto Stores Inc.
Headquarters: 2001-8 S. State St., Chicago, IL 60616
(312) 225-7174
Stores: 10
Total Corp. Sales: $7,500,000
Average SKUs: 10-12,000
Founded: 1918

A fixture in Chicago's inner city, Blue Star Auto is celebrating its 70th year as a family-owned operation. Founded in 1918 as an auto supplies/used parts outlet by Sam Weisman, the business grew and flourished throughout the Midwest. In 1936, Weisman acquired a chain of paint stores, which he changed into auto supplies outlets. Eventually, Blue Star was pared down to Chicago area operations, and there it remains.

The company still owns the original Blue Star store, which in fact is the chain's headquarters and flagship operation, and it has managed to remain successful despite the difficult location.

Gene Weisman, nephew of the founder, is the chain's president. He runs the business with his brother Yale, and Yale's two sons.

Weisman describes his business as 95% DIY, 5% commercial. Weisman, who avoids labeling inner city areas as problems, attributes this success to "service with knowledgeable people" and a knack for meeting consumer demand.

Blue Star operates like many other successful chains. All ten stores, which range in size from 3,400 to 10,000 sq. ft., have the same format. The customer

walks in the door and immediately confronts the parts counter. The counter may be either right or left of the door, depending on the configuration of the store. The counter layout forces the consumer to turn and walk down at least one aisle; there he sees gondolas running at right angles to the parts counter, with seasonal end caps on every aisle.

The product mix is the same in each Blue Star store—approximately 50% parts, 50% accessories and chemicals.

Most of the parts are for the U.S. vehicle market; there is some coverage for foreign autos, but the parts section "matches the market," according to Weisman. Best sellers in all stores are ignition parts, chemicals, and motor oil.

"We also do very well in special accessories popular with inner city markets," Weisman said. These include items such as custom wheels and body treatments.

Blue Star, which operates its own warehouse and has just installed a state-of-the-art computerized POS ordering system, meets special requests with "a unique special order system," Weisman said. "We

Gene Weisman

can order from unusual sources all over the world, from contacts we've built up over the years."

Blue Star stores have an identifiable look: their large, bright window graphics are designed to make the urban stores look larger. A color scheme of grey and blue is carried out in exterior and interior signage. Ads also have a distinctive look. The firm advertises exclusively by newspaper, every Thursday. Weisman directs all the firm's advertising, and participates in layout and production.

Each Blue Star store is open seven days a week, from 8:30 am-7 pm on weekdays, 8:30 am-6 pm on Saturdays, and 9:30 am-3:30 pm on Sundays. The only concession to the stores' inner city locations, Weisman said, is "burglar bars to prevent smash-and-grab."

Plans for the future, according to Weisman, include two more stores in the same area. He and his family are committed to Chicago; committed to Blue Star. "After all," he said, "I've been doing it for 40 years."

DETAIL

30%

of American drivers are younger than 30 years old, according to the Motor Vehicle Manufacturers Association.

PROFILE: WINDSHIELD WIPERS OR BLADES DIYers

Drawing from the 1988 *Automotive Marketing Consumer Automotive Repair Study*, we look at DIYers who purchased and installed windshield wipers or blades during the previous 12 months.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+ 40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	68.0%	32.0%	13.0%	28.3%	24.1%	13.3%	20.7%	22.2%	20.1%	24.0%	22.9%	11.9%	63.5%	14.7%	7.7

MARKET LINE

SEMA and the SEMA Show to "the way the entire specialty aftermarket is taking off." Last year, SEMA produced its first market study of the performance market. The study predicted 11.2% growth for the specialty market until the 1990s. The second specialty market study, which will be released at this year's show, forecasts an even higher growth rate, up to 14.3%. "If the current sales growth continues to 1990, as it should," King said, "it will mean a 74% sales growth in the specialty market between 1985 and 1990."

The SEMA Show itself reflects that growth. The SEMA Show has more than doubled in size between 1983 (1,215 booths) and 1988 (2,504 booths at press time).

Ford Featured Car Company

Ford will be the featured car company. Along with unveiling its Motorsport program at the Show, Ford will present seminars on aerodynamics, electronics, and other performance-oriented topics on Innovations Day and during the Show.

Ford's racing ambassador, Formula-1 racer Jackie Stewart, will be the keynote speaker at the Innovations Day Luncheon. Stewart recorded 27 Grand Prix wins in 99 starts during his 12-year career. Twenty-five of the wins were with a Ford/Cosworth DFV engine. He is now technical advisor to Ford.

SEMA president Chuck Blum said, "We are delighted to have Ford as the official feature car company at the 1988 Show. Together we have some terrific surprises planned for the Show."

On Tuesday, November 1, SEMA will hold its annual Awards Banquet at the Las Vegas Hilton. Awards will be given for best new products, packaging, and merchandising in several categories. Since the Banquet is only one week before the presidential election, candidate and comedian Pat Paulsen will campaign for votes at the Banquet. Joining Paulsen is comedian Jerry Seinfeld.

SEMA will hold seminars on selling products for light trucks and street rods on Monday and Wednesday mornings preceding the show exhibit hours. Exhibit hours run from 10 a.m. until 6 p.m. on Monday and Tuesday and 10 a.m. until 5 p.m. on Wednesday. During the Show, there will be technical seminars and a first time feature, 36 product installation clinics, sponsored by *Automotive Marketing* and the Chilton Book Co., Radnor, PA. Once again, SEMA will feature a state-of-the-art store on the show floor.

AI EXHIBITORS & BOOTHS

Mergers, acquisitions, currency devaluations, and growing competition from domestic suppliers have hit the AI Show hard in recent years. But the Show remains the only national exhibition by independent distributors of OE quality parts for imports. Figures for 1984 are misleading since that Show was held concurrently with APAA and AI.

Year	Exhibitors	Booths
1987	146	326
1986	155	331
1985	181	386
1984	144	278
1983	177	318
1982	225	420

Source: AI

Along with SEMA activities, AIA will hold its annual Awards Reception on Monday, October 31, at the Riviera Hotel. The organization will name the AIA Person of the Year and Hall of Fame Inductees at the reception.

On Tuesday, AIA will present the results and applications of its ongoing import jobbers study at a seminar preceding the show exhibit hours. At 5:30 that evening, AIA offers a cocktail reception followed by a Import Market Roundtable on counterman training, both at the Convention Center.

Blum noted that the 1987 SEMA/AI Show drew 13,597 verified buyers, "This is the highest number of verified buyers to ever attend any automotive aftermarket show." He would not be surprised to have even more at this year's Show. ■

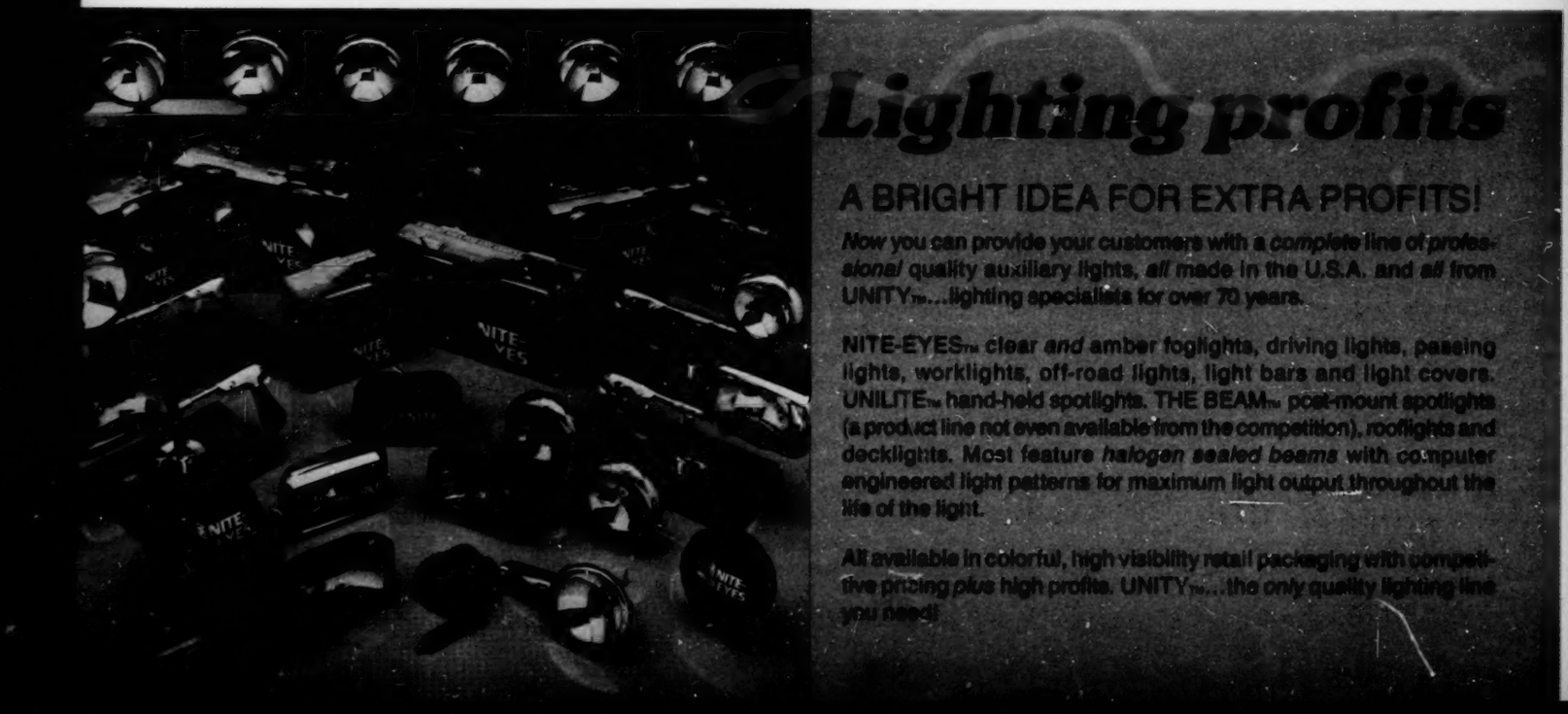
CA May Say "No" To Gas-Powered Cars

If California's role as a trend-setter holds true, gasoline-powered vehicles may be scarcer in the future.

Two powerful Southern California environmental watchdog groups, the South Coast Air Quality Management District (SCAQMD) and the Southern California Association Of Governments (SCAG), have proposed sweeping legislation that would ban gasoline-powered cars from their region within 20 years.

More Legislation To Come

What the two agencies are proposing is the type of environmentally-based legislation that will keep OEMs and aftermarket suppliers on their toes for the next decade, according to Linda Hoffman, vice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MARKET LINE

president for international and government affairs of the Automotive Parts & Accessories Association (APAA), Lanham, MD.

"This kind of legislation has been around for the last 20 years. And while this case sounds particularly extreme, we should not make light of it. The 1990s are going to be strong years for environmental legislation. We will see more of this," Hoffman said.

Faced with a federal court order to reduce smog to meet federal health and clean air standards, the SCAQMD and the SCAG have outlined a 20-year plan that would force many drivers into electric-, propane-, or methane-powered vehicles.

Under the proposed plan, owners of fleets in Southern California will be required within five years to buy "clean fuel" vehicles when they replace existing vehicles. The rule would affect about one million vehicles, including the region's rental fleet.

The SCAQMD already has power to force such a change. The agency hopes the move will help drivers familiarize themselves with "clean fuel" vehicles and give OEMs an incentive to build the cars.

What It May Mean

Other points of the proposed legislation include:

- Converting at least 40% of non-fleet passenger vehicles and 70% of non-fleet trucks to "clean fuels" by 1998. By the year 2008, ten years later, virtually all vehicles would be required to be powered by "clean fuel."
- Stiffening existing vehicle pollution controls such as the emission and inspections program within five years.
- Preventing additional traffic in the region with increased mass transit, staggered work hours, and by providing incentives for businesses to move out of the most badly polluted areas.

THE CAUSES AND COSTS OF POLLUTION

The EPA believes cars and other vehicles produce much of the smog in Southern California. And while the probelem will be a costly one to solve under legislation now proposed – an estimated $9.4 million a day through 1993 – the region's bad air is already an economic burden.

Type Of Air Polution	% Caused By Vehicles
Reactive Organic Gases	52%
Nitrogen Oxides	72%
Carbon Monoxide	96%

Pollution Effects	What It Costs S. CA Annually
Health (sick days, doctor & hospital bills, lost production)	$13 Billion
Crop Damage	$7 Million
Materials Damage (buildings & other structures)	$57 Million
Visibility Degradation (tourism, etc.)	$275 Million

Source: EPA, South Coast Air Quality Management District, Southern California Association Of Governments estimates

The proposed legislation will be submitted to the federal Environmental Protection Agency (EPA) for approval. If the EPA okays the plan, local governments will still have to adopt new legislation and raise new money to make the plan work. But the EPA has warned Southern California that if it does not act, the federal agency will act for it.

The moves are necessary because Southern California has the worse air quality in the nation and most of the pollution is caused by vehicle emissions, according to the EPA. The area's ozone level is three times higher than the acceptable national health standard, levels of particulate matter in the air are 80% above federal standards, and it is the only area in the country that still violates nitrogen dioxide standards.

Impact Still Unknown

"California has done the most work on air quality standards – even more work than the federal government – because its air is so bad. But we believe there should be a cost/benefit analysis done on this type of legislation," Hoffman, who has testified before the SCAQMD on other matters, said.

Robert Burch, vice president for technical and legislative affairs of the the Specialty Equipment Market Association (SEMA), Whittier, CA, said his association did not feel proposals would harm its members businesses.

"There would be no problem for manufacturers of modified parts in dealing with cars designed to run on alcohol. In fact, in some cases there could be advantages. The problems happen when you try to convert gasoline powered cars to alcohol fuel," Burch, who has helped the EPA test alternative fueled vehicles, said.

Neither SCAQMD, SCAG, APAA nor SEMA has any idea how the proposed legislation would impact the aftermarket financially or otherwise at this point. But if it is approved as proposed, store gondolas in Southern California could be carrying whole new lines of parts for "clean fuel" vehicles 20 years from now. ■

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inventory turns that not only outperform the industry but nearly double the industry average," a program aimed at improving the retailers' bottom line. Loulis also cited consumer rebates as "an example of an effective promotion designed with the retailer and his consumer customer in mind."

At Maremont

Maremont, Carol Stream, IL, also wrote to talk of customer priorities. Ronald Newton, vice president, marketing, said that Maremont recently redesigned its packaging for its gas-charged lift support product line to double the amount of product merchandised per linear foot of display space.

When Maremont introduced the industry's first complete gas-charged lift support program, "Our blister pack provided a large area for graphics for describing the product's features and educating the consumer about lift supports," Newton said. "Now the public is aware of the product and its advantages, so we have redesigned the packaging." The new package opens and closes easily for consumer inspection or return to inventory in an undamaged package, should a customer bring the lift support back to the store. ■

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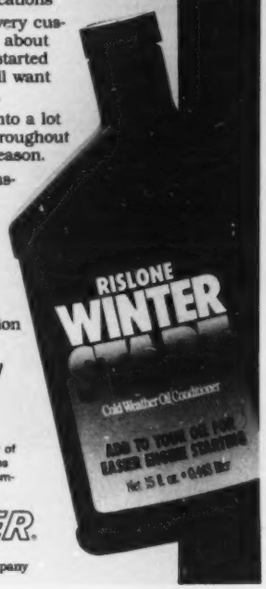

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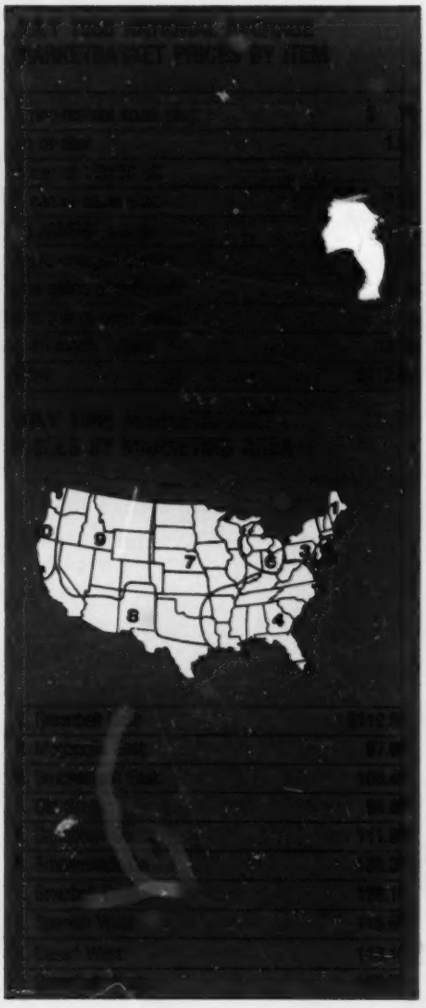
(Circle 21 on Product Information Card)

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products making up the marketbasket are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.



IMPORT PARTS DISTRIBUTION

The import distribution channels are murky. Here are some guideposts to help you sort them out.

by **John Wirebach,**
Senior News & Features Editor

First, some numbers:

Some 4.7 million import cars and trucks were sold in the U.S. in 1987, according to R.L. Polk & Co., Detroit, registration figures. As of June, 1988, another 2.2 million import cars and trucks had been registered in 1988. Roughly 28 million import vehicles are on the road today, or about 22% of the vehicle population. And, according to the Department of Commerce (DOC), the import carmakers will sell even more vehicles in the next five years. The DOC predicts the import carmakers will sell about 41% of all new cars by 1993 versus 31% in 1987.

Speaking to the Frost & Sullivan conference held recently in Toronto, John Ayers, marketing vice president of Allied Aftermarket Div., East Providence, RI, likened the growth of import cars to a revolution.

"We in the aftermarket must act. We must act smart, decisively, and fast. If we do not, our loss will be measured in revenues slashed, profits evaporated, and market share shrunk. We will suffer these effects as drastically and as rapidly as did the Big Three automakers when the import revolution struck them a decade ago in the aftermath of the oil embargoes," Ayers said.

The reason for such frightening talk is that until now, the import vehicle repair market has been dominated by the OE dealer network and the import specialist. Both of these channels source a majority of their parts overseas. A survey by Easton Consultants, Hopkinton, MA, found that domestic parts suppliers received only 11.3% of their sales from parts for import vehicles in 1986.

At the distribution level, based on estimates from all segments of the market, the sales of parts for imports breaks down like this:

- Import car dealers: 40-45%
- WD/Jobber channel: 25-30%
- Retail chain stores 15-20%
- Import specialists 15-20%
- Specialty service: 5-10%

There have been three stages of growth for the import parts market in the U.S. First, the general feeling was, "Ignore imported cars (basically German Volkswagens), they'll go away." Because domestic repair shops shunned imported cars in the 1960s and early 1970s, a separate import specialist repair market, mainly for Volkswagens, found work. Because OE car manufacturers did not want to supply independent import specialist repair shops, except at prohibitive prices, a group of expeditors grew up, buying OE parts in Europe and selling direct to repair shops.

"Expeditors began as the schlock end of the industry," Hank Allessio of Easton Consultants, said.

"Typically, they bought a container of low-priced VW parts, opened the yellow pages, and peddled the parts over the phone. Then they bought some more."

As the market grew, the expeditors became much more sophisticated, as did their customers. The expeditor is still a key component of the market, although mainly the European car repair market. In fact, because the imported vehicle market is such a niche market (there are some 30 import makes on the road), Ed Kaufman of Lindsey-Kaufman, Tenafly, NJ, who's preparing a study of the import market for Frost & Sullivan, sees a bigger role for the expeditors in selling imported parts.

"There're hundreds of small companies selling $6-$15 million, handling short lines in certain categories and certain makes. They have a very low profile and they're proliferating. They represent a channel for reaching the car dealer and the specialist. Some import car dealers buy as much as 10-20% of their inventory from expeditors," Kaufman said.

So, the first stage was primarily a European market, spurred on by the huge sales of VWs in the late 1960s (almost 600,000 a year). Japanese cars appeared on the market only in the late 1960s (Toyota in 1968 and Nissan in 1969). Although Japanese sales were slow at first, the first gas crisis in 1973 found consumers seeking economical cars.

The Second Stage

The second stage was basically Japanese. Hurt by the devaluation of the dollar versus the German mark, Volkswagen sales dropped from 573,000 in 1970 to under 200,000 by 1980. Fueled by a second gas crisis and raging inflation, Japanese car sales rose from about 375,000 in 1970 to about two million in 1980.

In the second stage, the import distributors came into prominence and grew with the rising number of Japanese cars. These companies, such as Beck/Arnley, Nashville, TN; Vera, Piscataway, NJ; Geon, Cerritos, CA; Lazorlite, Fremont, CA, and several others, differed from expeditors in significant ways.

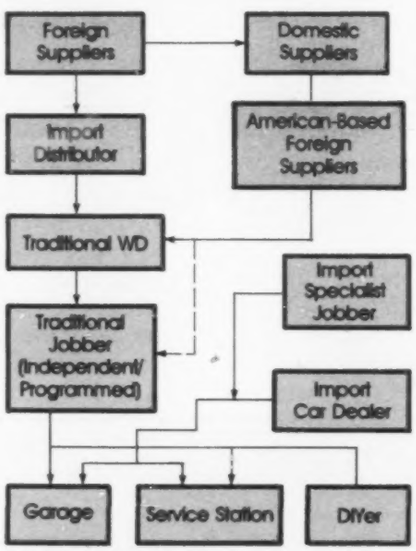
While expeditors tended to sell by make of car or by line of part, the import distributors sold full lines, usually about 18-20,000 SKUs. Thus, the import distributor offered jobbers a way to cover all imported cars, which became critical as new makes and models appeared on the roads (only three import makes sold more than 50,000 new cars in 1970; by 1980, 14 import makes sold more than 50,000).

And while the expeditors sold direct to repair shops, the import distributors originally sold through import specialist jobbers. Indeed, several of the import distributors owned jobber stores. Geon, for instance, operated as many as 100 at one time and still owns about 35.

By 1987, Beck/Arnley (now merged with Worldparts), the most successful im-

TRADITIONAL CHANNEL

Most traditional WDs have now lined up with a full line import distributor to supplement domestic lines and to provide import parts to their jobbers. In addition, domestic suppliers and American-based foreign suppliers supply some lines. But at the installer level, there is considerable buying out from specialists and import car dealers.



port distributor, did about $110 million a year, while Geon and Vera were both in the $50 million range.

The second gas crisis in 1979 and the recession from 1980-82 turned the corner on the import market. Japanese vehicle registrations doubled from about 8 million in 1978 to almost 16 million in 1983. The need for parts to repair and service these vehicles led the import distributors to set up programs to sell to traditional WDs and jobbers. In addition, a second line of import distributors such as IAPCO, Avon, MA, and MPA, Huntington Station, NY, offered short lines (about 2,000 SKUS) of OE quality parts to retailers and jobbers who didn't want the full lines.

With numbers like these, everyone, at every level of the market, has tried to sort out import coverage. There is a grudging and growing acceptance of the fact that the imports are here to stay and the aftermarket must deal with imports more efficiently than in previous years.

The Third Stage: Here And Now

Retailers have done the best and worst jobs, depending on the point of view. To some suppliers who'd like to sell them, the average auto chain is not doing well.

"Most retailers are only interested in the A parts for the A cars," Randy St. John, president/CEO of GKN Aftermarket Parts (parent of Beck/Arnley and Worldparts) Inc., Nashville, TN, said.

"They don't want to get any deeper. So that limits their potential. Carrying A's will give you 60-70% coverage. But can you attract your share of business? In my opinion, no. The advertising must speak to import owners and you have to express it in the store. The jobber/retailer that can sell wholesale to support the inventory necessary will get more share," St. John said.

And Eric Roberts, vice president of IAPCO, noted, "It takes a lot to pull an import program together. Retailers are usually better equipped to sell merchandise than to source it. It's not an easy business. Generally, no retailers are doing a great job with imports. Very few retailers match their sales with local import registrations."

But retailers, by and large, have been able to service the DIYer who owns one of the more popular imported makes. Most auto chains have been able to use a combination of domestic suppliers' line extensions and a short line import distributor to fill DIYer needs.

Another program popular with retailers like Nationwise, Columbus, OH, and AutoZone, Memphis, TN, is about 1,800 SKUs in the stores backed up by 12,000 special order parts in regional warehouses. The reasoning is that it reduces the need for specialized counterpeople in the stores. One retailer noted that it was impossible to have high-caliber parts people in each store and "still compete at McDonald's wages. So our theory is to have the experts here at our warehouse and only entry level people in the stores."

However, the growing number of import vehicles will give retailers more sales in accessories, chemicals, batteries, and oil, in addition to some basic DIY parts for imported vehicles.

The growth in import sales will also help the service specialist. This segment already deals directly with import manufacturers for parts. What they can't source overseas can usually be sourced domestically since they stick to simple repairs and don't have to worry about deep coverage.

The retail and repair channels will probably be changed the least by the import revolution. The major battle will be in the channels that deal with the whole car: the WD/jobber, the OE/dealer, and the specialist jobber and repair shop.

The OE/Dealer Market

The import OE vehicle makers dominate the import aftermarket to a much greater extent than the domestic OEs dominate the domestic vehicle aftermarket. A study by Industrial Market Research, Clarendon Hills, IL, found that 23.6% of the incidences of purchases for import parts and accessories (of some 68,000 purchases) took place at import dealers, while only 11.8% of purchases for domestic cars (of some 256,000) took place at dealerships.

Easton Consultant's Allessio said, "It means that import dealers are doing something right. The choice of where to purchase is really a systems' choice. After all, the owners can find parts in other outlets. We concluded that if people are happy with the car, they're willing to go to the dealer."

Allessio noted that the Japanese Big Three—Toyota, Nissan and Honda—all have a high share of the aftermarket. Some notable European OEs, on the other hand, have much less, because there is a strong independent repair shop market for European cars.

Although it's hard to get an exact fix, and estimates vary greatly, it seems certain that dealers sell more than 40% of the parts for imports. However, not all of these are installed at dealerships. Unlike domestic dealers, import dealers usually have good wholesale sales to local repair shops and service stations. In addition, a study by the Allied Aftermarket Div. found that 7-9% of DIY import owners patronized import dealerships for basic parts like oil filters, brake shoes, and spark plugs.

Japanese OE makers keep a tight rein on their suppliers. St. John noted that each Japanese OE has a closely held tier of 10-20 suppliers. "The Japanese OEs carry a big stick. They have equity in their suppliers, some are majority owned, they have contracts that say they're not permitted to sell to the aftermarket. But some can sell parts for other models."

The recent devaluation of the dollar versus the yen was supposed to help American exporters. Instead, it seems to have helped the OE/dealer market in the U.S. Because prices for overseas-sourced parts have risen, an importer like GKN that sources about 60% of its parts in Japan, finds that dealers are able to sell as much as 20-30% cheaper on some lines.

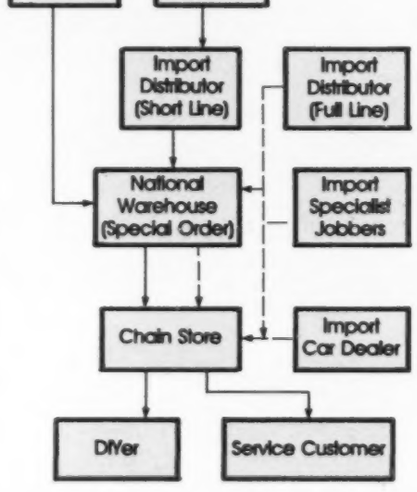
"Our costs have doubled since 1986." St. John said. "It's gone from 260 yen to the dollar to about 130 yen to the dollar. We've raised our prices 50-60%. But Japanese car dealers have only raised prices 20-30%. They're taking a much tighter margin. In some cases they must be selling at cost or below."

Mort Schwartz, president of Lazorlite Parts, said, "It's part of an overall strategy by Japanese OEs. The Japanese OEs have always been very aggressive to retain parts and service. They've been aggressive in promotions, it's good strategy. Their parts pricing is right up there. They're willing to take a low margin."

Interestingly, a survey by *Auto Week* magazine found that identical parts made

CHAIN STORE CHANNEL

The auto chains stock limited lines of fast moving parts for the leading imports. Thus, their sourcing is relatively simple. However, more chains are doing special order programs through full line distributors. In addition, chains with service often rely on car dealers and import specialist jobbers for service parts.



for either an import or an identical import sold under a domestic OE nameplate (such as the Dodge Colt/Mitsubishi Mirage) also had the same 20-30% price gap in favor of the import dealer. It seems as if the Japanese OE makers are holding down prices. In fact, several import distributors claim the OEs are dumping parts on the American market to drive away competition.

And so we have the strange situation (for those familiar with the domestic market anyway) where it costs an installer or DIYer more to buy from a jobber store than at the dealership. Will this continue? No one knows. One result of the devaluation may be that WDs will source fewer parts overseas and source more through domestic suppliers. However, many of the domestic suppliers also source parts from overseas to fill out lines. A 1986 study by Easton Consultants found 52% of all parts for imports sold by domestic manufacturers were outsourced.

It would seem that it would be a good time for Japanese OEs to roll out programs for part sales such as GM's AC-Delco or Ford's Motorcraft, but there seems little chance of this. Several attempts by Toyota and Nissan have been less than successful.

Sheer Numbers

One reason is that OEs do not want to compete with their dealers. They'd rather sell parts through the dealer. More importantly, however, dealerships will have to work harder simply to keep up with warranty work and normal parts and service as the number of imports on the road increases. Both Toyota and Nissan have about 1,100 dealers, while Honda, Subaru, and Mazda all have about 900.

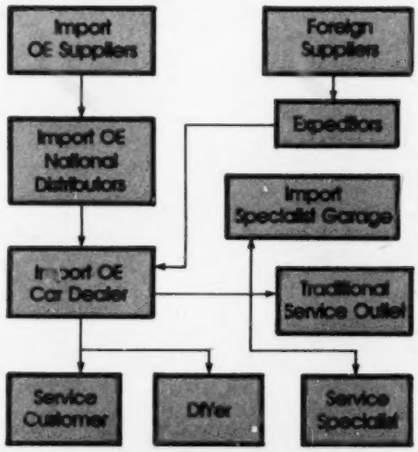
Just the sheer number of import cars on the road will mean dealers will lose customers. "They're going to be very hard-pressed just to maintain their market share," Schwartz said. "There're only so many dealers and so many bays. There'll be some additional capacity, but sheer registration numbers will dictate more business for the independent aftermarket."

The number of import vehicles in the three-year and older category is growing rapidly. There are more than five million Toyotas and four million Nissan/Datsuns on the road over three years old. While these numbers are small compared with the number of Fords and Chevrolets, the imports are growing at a higher rate. Roughly a third of the imports are still under three years old. For example, Honda, which has become the number one import car in new car sales (although Toyota and Nissan still outsell it in total vehicles), sells about the same number of cars as Mercury and more cars than any individual Chrysler make. And the Korean Hyundai has sold 600,000 cars in less than three years and is the best selling car in California.

One channel that will profit from this growth is the import specialist. The number of import specialist jobbers is very low. Allessio said, "A very optimistic count might be 2,000. It may be much closer to 1,000." The future of the import jobber has been a topic of heated conversations for the past five years of so. One key reason has been the availablity of import parts from many traditional jobbers.

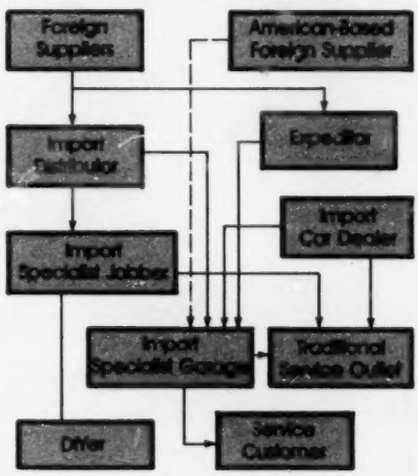
IMPORT CAR DEALER CHANNEL

The import car dealer offers the longest lines of any of the channels because he is serviced by the OE network. Thus, the dealer is able to, and encouraged to, sell wholesale to traditional outlets besides selling directly to DIYers. However, some dealerships buy fast moving parts through expeditors for economy, especially with European makes.



THE IMPORT SPECIALIST CHANNEL

At all levels, the import specialist usually lines up closely with an import distributor or an American-based foreign supplier such as Bosch or Lucas. But there is considerable level cutting as some jobbers buy many parts numbers directly from manufacturers or distributors. In addition, car dealers sell to import specialist garages.



Thus, repair shops that had to buy from import jobbers now can turn to local WDs in many localities.

"I think there's still a niche there," St. John said of the import jobber. "for a group of strong specialist jobbers, but not neccesarily 100% import. We've lost many specialists. When you're running a business based on being the only source in town you can get pretty arrogant. Now there're many sources. The specialists that remain are good business people. They know their inventory, they know their market, and they sell at a fair price. We see a different kind of specialist. An in-between, mini-specialist that doesn't need an enormous inventory. We call our program the Five-Star jobber. We see 2-3,000 jobbers taking a program like this."

While the import jobber is struggling, the import specialist repair shop is booming. Best estimates put that population at about 10,000, but the import distributers see the number growing to as many as 40,000 shops by the 1990s.

In talking about the specialist repair shop, you have to differentiate between what kind of import the repair shop services. Roughly half specialize in European makes. Most of these date from the 1960s and will not change. The market for European parts is well established, the Japanese specialists will grow.

The Japanese Dominate

The reason is simple: Japanese makes dominate the import market while the sales of European makes are declining. In recent years the and Korean Hyundai (sales over 300,000) Japanese Acura (yearly sales over 100,000) have been added to the import top ten sellers list while Audi and BMW have fallen off. Roughly 80% of imports are manufactured in Asia (including Korea), according to the DOC. The DOC forecasts a decline in European car sales from about 600,000 in 1987 to about 450,000 in 1991. However, the majority of the European cars are luxury models which get little or no DIY work. So the European import specialist repair shop should remain a viable market for established channels.

But on the Japanese side, the growing number of Asian cars means more repair work. Although a certain amount of repair will be done by DIYers, the repair shop that does import work represents the key growth area in import part sales. The question is, who will supply this growing market?

There should be an excellent opportunity for the import distributor to sell the growing number of import specialist repair shops. However, the import distributor labors under some stiff competition. First, from manufacturers. Bosch, for ex-

ample, has a full training and service program for repair shops featuring Bosch parts. Although Bosch is known mainly for European coverage, it does carry a full parts line for Japanese cars. And, sourcing directly from manufacturers is one way for a repair shop to raise its margins as competition for import work increases. No doubt, more manufacturers will make buying direct easier.

Then there is the continued competition from the Japanese dealer network. Right now, repair shops can buy cheaper through dealers than through import distributors.

Chet Staron, president of Topline, Chicago, a domestic manufacturer of engine parts, said there is a concerted effort by the Japanese to eliminate the import distributor. "The bottom line is, the Japanese did a great job of getting 30 million vehicles over here. They have their aftermarket shored up. Now they want to blow off the importer because they no longer need him."

Staron's claims that you "can't trust Japanese OE part numbers. If you do, you'll get a lot of dead inventory. The Japanese say you can't consolidate part numbers. That's nonsense." Staron said following OE part numbering systems has resulted in $125 million in obsolete parts in WD/jobber inventories.

Staron claims the import distributors have dozens of "dead puppies" in their lines. "Junk." Staron said the U.S. distribution system has five times the inventory stocked in Japan. He added Topline can cover some 18,000 OE part numbers ("Acura to Yugo") with about 7,000 SKUs. He claims it's a delibrate attempt by Japanese OEs to confuse U.S. competitors and dissipate capital. As proof, he cites the fact that Topline is an *exporter* of parts for imports to Asian countries (but not Japan).

His advice to retailers is to "get in bed with the manufacturer. Buy direct wherever possible. If you buy a warehouse program, make sure his source is the manufacturer, not a repackager. You can't afford another step in distribution."

For suppliers Staron said, "Source in Taiwan, Korea, Malaysia, and other Third World countries. Whoever can get out of proliferation and into rationalization (shortening lines) is going to do well."

Staron pointed to NAPA, Atlanta, which provides all parts for imports through its domestic vendors, as the way to go. "But you've got to learn how to do it. You've got to take chances."

In addition to increased competition, the import distributors are taking losses. As St. John said, "The traditional system was designed to handle three makes of cars. Now there're 32 import makes with 600 models. The base has increased in range and variety. That by itself is enough to cope with. But at the same time, the chain stores have bled off the fast movers, the dealer body is improving, and you have the new wave installers buying direct. The traditional channel has been belted hard. That's our biggest problem now: the traditional channel is in such confusion."

The Traditional Market

Still, the WD/jobber continues to increase its sales of parts for imports through traditional outlets such as service stations and non-specialist repair shops. However, a 1987 Motor Equipment Manufacturers Association (MEMA) study of the jobber market notes that "even in areas of the country where foreign vehicles are most densely registered, jobbers have not been able to gain as large a share of the import market as they have of the domestic vehicle segment."

The MEMA study found that parts with import vehicle applications comprise 14% of typical jobber sales (compared with about a 22% import vehicle population). About one jobber in five has more than 20% of sales in import vehicle applications.

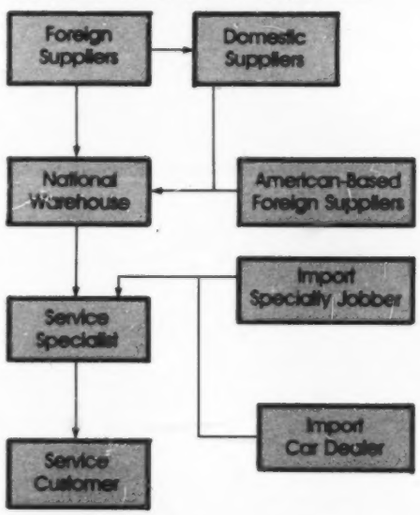
The MEMA study says jobbers are not "effective" in selling the three major service outlets for imported vehicles: car dealers, specialty repair shops, and import specialists. In addition, the study also shows that jobbers that sell over 20% import applications rely on import brands which provide over half the sales volume.

St. John thinks that overall jobbers are simply still not comfortable with parts for imports. "The problem is domestic jobbers don't have a clue about how to sell imports. They don't know the idiosyncracies of imports. So much of what the counterman knows is in his head. And there're so many variations in import sales. In order to get the business, you have to have the product and know how to sell it. It takes time."

The question might be: does the aftermarket have the time? The DOC forecasts an import vehicle market share of more than 40% by 1991. In addition to the Japanese, Koreans, and Europeans, cars made in Malaysia, Brazil, and Mexico are appearing on American roads. By the mid-1990s, imports will make up close to a third of the cars on the road. While sourcing an import program may be a confusing mess today, it's a mess the aftermarket will have to live with. ■

SERVICE SPECIALISTS CHANNEL

Service specialists, since they stick to only a few categories of repairs, have the simplest sourcing: manufacturer to national warehouse. But since the individual outlet does service odd cars, import jobbers and car dealers get many quick sales from these service specialists.



IMPORT VEHICLES ON THE ROAD

Here are estimates of the import fleet (cars and light trucks) as of Summer 19[illegible]8. Imports account for about 22% of the vehicles on the road. Roughly one third of the imports on the road are under three years old, which means that the aftermarket for these vehicles will continue to grow rapidly. Stocking lines for just three makes—Toyota, Nissan, and Honda—covers almost half the import market.

Make	Vehicles More Than 3-Yrs-Old (Million)	Vehicles Less Than 3-Yrs-Old (Million)	Total Vehicles (Million)
Toyota	5.1	2.4	7.5
Nissan	4.4	1.7	6.1
Honda	2.3	1.5	3.8
Volkswagon	2.4	0.5	2.9
Mazda	1.2	0.9	2.1
Suburu	0.9	0.5	1.4
Volvo	0.8	0.3	1.1
Hyundai	X	0.6	0.6
Total	**23.7**	**11.2**	**34.9**

Source: Automotive Marketing estimates